



Dynetek Industries Ltd. Reports First Quarter 2010 Results

Calgary, Alberta, Canada – May 14, 2010 – Dynetek Industries Ltd. (“Dynetek”), a leader in the design, manufacturing and marketing of proprietary fuel storage cylinders and systems for compressed natural gas (CNG) and hydrogen, today reported results for the three months ended March 31, 2010. The full unaudited consolidated financial statements and MD&A have been filed on SEDAR at www.sedar.com and on Dynetek’s website at www.dynetek.com.

Financial Highlights

(tabular amounts in thousands of Canadian dollars, except share capital and per share data)
(unaudited)

	Three months ended March 31	
	2010	2009
Cylinder and system sales	3,949	5,796
Research and development income	380	1,057
Investment and other income	1	3
Total revenue	4,330	6,856
EBITDA ¹	(442)	1
Net loss	(1,419)	(909)
Net loss per common share (basic and fully diluted)	(0.07)	(0.04)
Cash	265	728
Non-cash working capital ¹	11,826	13,972
Working capital ¹	12,499	15,108
Total assets	35,766	42,478
Long-term debt and capital lease	6,348	6,948
Capital and intangible expenditures	254	218
Cash flow deficiency from operations	(688)	(2,821)
Weighted average number of common shares outstanding	20,956,500	20,936,500

⁽¹⁾ EBITDA, non-cash working capital and working capital are non-GAAP financial measures. Dynetek defines EBITDA as earnings before interest, taxes, stock based compensation, foreign exchange gain or loss, depreciation, and amortization. Dynetek defines non-cash working capital as current assets less cash, restricted cash and current liabilities and working capital as current assets less current liabilities. Dynetek believes these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand the financial results and perform a better analysis of Dynetek’s growth and profitability potential.

OPERATIONAL HIGHLIGHTS

Revenue for the first quarter of 2010 was \$4.3 million compared to \$6.9 million for the same quarter of 2009, a decrease of \$2.6 million or 37% and EBITDA for the first quarter of 2010 was negative (\$0.4 million) compared to break-even EBITDA for the same quarter of 2009. As a result, the net loss for the first quarter of 2010 was \$1.4 million or a net loss of \$0.07 per share, compared to the 2009 same quarter net loss of \$0.9 million or net loss of \$0.04 per share.

Cylinder and system sales for the three months ended March 31, 2010 were \$3.9 million, a decrease of 32% from \$5.8 million for the same period of 2009. The majority of the decrease was the result of a combination of sales orders anticipated in Q1 now deferred to the remaining quarters of 2010 and the appreciation of the Canadian dollar against the US dollar and Euro. The Canadian dollar appreciated 16.4% against the US dollar and 11.2% against the Euro comparing Q1 2010 foreign exchange rates to Q1 2009.

For the second quarter of 2010, Dynetek's North American and European operations have greater levels of confirmed sales orders than same period 2009, which should result in significantly higher sales during the second quarter compared to the first quarter of 2010. We currently anticipate unit sales for the first six months of 2010 to be comparable to that of the first six months of 2009.

Research and development income for the three months ended March 31, 2010 was \$0.4 million, a decrease of 64%, from \$1.1 million for the same period in 2009. The 2010 first quarter decrease in research and development income from Q1 2009 was related to completion of the Magna Steyr contract by December 31, 2009.

Dynetek has secured new hydrogen projects for 2010 currently anticipated to be in excess of 2009 volumes with major deliverables coming in Q3 and Q4 of 2010.

Dynetek continues to maintain consistent levels of liquidity. At March 31, 2010 working capital was \$12.5 million compared to \$13.7 million at December 31, 2009. Maintaining consistent levels of working capital will continue to allow Dynetek to fund projects related to sales and research and development and develop new regions that demonstrate CNG growth.

OUTLOOK

Dynetek remains committed to its strategy of maximizing CNG sales in the near term while maintaining a focus on the long-term hydrogen market through research and development activities with the global OEMs.

Current projects underway within the research and development group are expected to result in 2010 research and development revenue exceeding 2009 research and development revenue and are evidence of the commitment on behalf of the Original Equipment Manufacturers to continue to pursue hydrogen strategies and to continue to see Dynetek as the supplier of choice.

The Asia-Pacific market represents significant opportunities for revenue growth with demand for CNG cylinders in Asia-Pacific expected to increase materially over the next 5 years. The International Gas Union issued its report, "Report on Study Group 5.3 – Natural Gas Vehicles" at the IGU World Gas Conference in October 2009, which estimated that by 2015, there will be an additional 7.9 million natural gas vehicle equivalents in Asia-Pacific compared to only 0.8 million additional in Europe and 0.2 million additional in North America.

Recent regulatory approvals in certain Asia-Pacific countries are the first steps in pursuing joint ventures to maximize Dynetek's penetration of these significant markets.

In addition to Dynetek's geographic expansion, we continue to focus on developing additional applications for our cylinders including bulk hauling and stationary storage.

ABOUT DYNETEK

Dynetek Industries Ltd. designs, produces and markets one of the lightest and most advanced fuel storage and refueling systems for compressed natural gas, low emission vehicles and compressed hydrogen, zero-emission fuel cell vehicles. Dynetek is recognized around the world for its solutions-of-choice to the alternate fuel vehicle sector, evidenced by strategic relationships with major manufacturers around the globe. Dynetek is listed on the Toronto Stock Exchange, symbol: DNK

FORWARD LOOKING STATEMENTS

In addition to historical information, this news release contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the year ended December 31, 2009 and quarterly interim financial statements for the first quarter of 2010. Forward-looking statements are based upon current assumptions, expectations and estimates that involve a number of risks and uncertainties and actual results could differ materially from those discussed in the forward-looking statements. Readers are encouraged to review the section in the Management's Discussion and Analysis titled 'Principal Risks and Uncertainties' for a discussion of factors that could affect Dynetek's future operations and financial results. Forward-looking statements are based upon management's assumptions, expectations and estimates at the time the statements are made. Dynetek does not update forward-looking statements should circumstances or management's assumptions, expectations or estimates change, except where required by securities laws .

For further information, please contact:

Douglas Pigot, Executive Chairman
Dynetek Industries Ltd.
4410 - 46th Avenue SE
Calgary, Alberta T2B 3N7
Tel Calgary: 403-720-0262
Toll free: 1-888-396-3835
Web: www.dynetek.com

CONSOLIDATED BALANCE SHEETS

(thousands of Canadian dollars)
(unaudited)

	March 31	December 31
	2010	2009
ASSETS		
Current assets		
Cash	265	1,040
Restricted cash (note 2)	408	408
Accounts receivable (note 3)	4,757	5,628
Inventory (note 4)	11,826	10,393
Prepaid expenses and other	340	442
	17,596	17,911
Intangible assets and deferred costs	4,285	4,452
Capital assets	13,885	14,017
	35,766	36,380
LIABILITIES		
Current liabilities		
Bank indebtedness (note 5)	343	—
Accounts payable and accrued liabilities	3,410	2,915
Deferred revenue	506	429
Current portion of long-term debt and capital lease	838	841
	5,097	4,185
Long-term debt and capital lease	6,348	6,491
Commitments (note 9)		
SHAREHOLDERS' EQUITY		
Share capital (note 6)	52,422	52,422
Contributed surplus (note 7)	2,866	2,830
Deficit	(30,967)	(29,548)
Accumulated other comprehensive income	—	—
	24,321	25,704
	35,766	36,380

See accompanying notes to the unaudited interim consolidated financial statements

CONSOLIDATED STATEMENTS OF NET LOSS, COMPREHENSIVE LOSS AND DEFICIT

(thousands of Canadian dollars except share capital and per share amounts)
(unaudited)

	Three months ended	
	2010	March 31 2009
REVENUE		
Cylinder and system sales	3,949	5,796
Research and development income	380	1,057
Investment and other income	1	3
	4,330	6,856
EXPENSES		
Cost of goods sold	3,477	5,542
General and administrative	982	910
Marketing	313	403
Interest	74	69
Depreciation	293	331
Amortization	260	257
Net foreign exchange loss	314	228
Stock based compensation	36	25
	5,749	7,765
Loss before taxes	(1,419)	(909)
Provision for income taxes	—	—
NET LOSS AND COMPREHENSIVE LOSS	(1,419)	(909)
Deficit, beginning of period	(29,548)	(26,126)
DEFICIT, END OF PERIOD	(30,967)	(27,035)
Per Share Information		
Loss per share (basic and diluted)	(0.07)	(0.04)
Weighted average number of common shares outstanding (note 6)	20,956,500	20,936,500

See accompanying notes to the unaudited interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)
(unaudited)

	Three months ended	
	March 31	
	2010	2009
Cash flows provided by (used for) operating activities		
NET LOSS	(1,419)	(909)
Items not involving cash		
Depreciation	293	331
Amortization	260	257
Stock based compensation	36	25
Unrealized foreign exchange loss	266	6
	(564)	(290)
Changes in non-cash working capital		
Accounts receivable	871	(147)
Inventory	(1,433)	(1,725)
Prepaid expenses and other	102	77
Accounts payable and accrued liabilities	495	(213)
Deferred revenue	77	(503)
Unrealized foreign exchange gain relating to non-cash working capital	(236)	(20)
	(688)	(2,821)
INVESTING ACTIVITIES		
Additions to intangible assets and deferred costs	(93)	(162)
Additions to capital assets	(161)	(56)
	(254)	(218)
FINANCING ACTIVITIES		
Repayment of long-term debt	(111)	(44)
Foreign exchange gain (loss) on cash held in a foreign currency	(65)	14
Increase (decrease) in cash, net of bank indebtedness	(1,118)	(3,069)
Cash, net of bank indebtedness, beginning of period	1,040	3,797
Cash, net of bank indebtedness, end of period	(78)	728

Interest income received during the three-month period ended March 31, 2010 was \$1 thousand (2009 - \$3 thousand) and interest paid during the three-month period ended March 31, 2010 was \$68 thousand (2009 - \$63 thousand). Income taxes paid during the period was \$nil (2009 - \$nil).

See accompanying notes to the unaudited interim consolidated financial statements

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of Canadian dollars, except share capital amounts)
(unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements have been prepared by management of Dynetek Industries Ltd. ("Dynetek" or "the Company") in accordance with Canadian generally accepted accounting principles ("GAAP"). These unaudited interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with Dynetek's audited consolidated financial statements and notes as at and for the year ended December 31, 2009. The accounting policies and methods of application used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in Dynetek's most recent audited year end consolidated financial statements.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

2. RESTRICTED CASH

At March 31, 2010, the Company has \$408 thousand (2009 - \$408 thousand) in restricted cash, invested in a guaranteed investment certificate bearing interest at 0.15% per annum, representing funds used as security for loans between an officer and a director of the Company and a major chartered bank for the purchase of common shares of the Company.

3. ACCOUNTS RECEIVABLE

	March 31 2010	December 31 2009
Accounts receivable – trade	4,035	4,582
Accounts receivable - other	722	1,046
Allowance for doubtful accounts	—	—
	4,757	5,628

The aging of trade receivables as at March 31, 2010 is set out below:

Current	3,086
Past Due 0 – 30 days	281
Past Due 31 – 60 days	61
Past Due over 60 days	607
	4,035

Accounts receivable - other mainly consist of goods and services and value added tax receivables and government funding receivables. The Company evaluates the ability to collect each receivable by counterparty. At March 31, 2010, the Company believes all receivables are collectable and, therefore, no provision for doubtful accounts has been made. Of the amounts above not classified as current trade receivables, \$0.4 million has been collected subsequent to March 31, 2010.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of Canadian dollars, except share capital amounts)
(unaudited)

4. INVENTORY

	March 31 2010	December 31 2009
Raw materials	2,767	2,126
Work-in-progress	4,558	4,815
Finished goods	4,501	3,452
	11,826	10,393

The Company measures its inventory at the lower of cost and net realizable value. Cost includes the costs associated with delivering the inventory to the manufacturing plant. Work-in-progress and finished goods inventory includes costs associated with direct labour and include an allocation of fixed and variable production overhead associated with converting raw materials into finished goods. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of inventory expensed for the three month period ended March 31, 2010 was \$2.7 million (2009 – \$3.7 million).

During the period ended March 31, 2010 and 2009, the Company did not write-down any inventory to net realizable value or reverse any write-downs previously taken. Inventory is pledged as security for the Company's operating bank line (see note 5).

5. BANK INDEBTEDNESS

	March 31 2010	December 31 2009
Canadian cash in bank	982	679
Operating line of credit drawn	(1,325)	(245)
Bank indebtedness	(343)	–

The Company has a \$2.75 million operating line of credit with a major Canadian chartered bank, with which it has cash on deposit. Amounts drawn are payable on demand and bear interest at the bank prime rate plus 2.0% per annum. The bank line is secured by an assignment of book debts, inventory and a collateral mortgage. The credit agreement requires the Company to maintain a working capital ratio above 2.5 : 1.0, shareholders' equity in excess of \$22.0 million and a debt to tangible net worth ratio not to exceed 1.5 : 1.0.

At March 31, 2010, the Company had drawn \$1.3 million on its operating line of credit (December 31, 2009 - \$245 thousand) and was in compliance with all financial covenants under the credit agreement.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of Canadian dollars, except share capital amounts)
(unaudited)

6. SHARE CAPITAL

The issued and outstanding common shares of the Company along with securities convertible into common shares are as follows:

Issued and outstanding:

	Number of Shares	Amount
Balance at December 31, 2009 and March 31, 2010	20,956,500	\$ 52,422
	March 31 2010	December 31 2009
Securities convertible into common shares:		
Stock options	1,939,500	1,214,500
Warrants	581,730	680,112

During the three months ended March 31, 2010, 775,000 (2009 – nil) stock options were issued to employees and members of the Board of Directors. Stock options cancelled during the three month period ended March 31, 2010 totalled 50,000 (2009 – 300,000).

The weighted average number of shares outstanding for purposes of calculating basic and diluted income per share for the three month period ended March 31, 2010 was 20,956,500 (2009 – 20,936,500). The effect of dilutive securities with respect to stock options was anti-dilutive at March 31, 2010 and 2009 resulting in the same weighted average common shares outstanding on both a basic and diluted basis.

The estimated fair value of the options used for accounting purposes has been determined using the Black Scholes option-pricing model with the following assumptions:

	March 31, 2010
Weighted average risk-free interest rate	0.43%
Weighted average expected life	5 years
Estimated volatility in the market price of the common shares	124%
Expected dividend yield	0%

The weighted average fair value per option was \$0.29 for the three month period ended March 31, 2010 and there were no stock options issued for the comparable period of 2009.

7. CONTRIBUTED SURPLUS

The following table summarizes information about contributed surplus.

Balance at December 31, 2009	2,830
Stock based compensation expense	36
Balance at March 31, 2010	2,866

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of Canadian dollars, except share capital amounts)
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8. TRANSACTIONS WITH RELATED PARTIES

- (a) For the three months ended March 31, 2010, the Company purchased under normal terms and conditions \$0.4 million (2009 - \$2.4 million) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.
- (b) The Company's board of directors agreed to contract the services of its chairman to provide financial consulting and strategic planning services to the Company. The agreement for the services was effective from August 2009 through January 2010. For the three months ended March 31, 2010, the Company paid \$29 thousand to a company controlled by the chairman. The Company recognized this amount as a general and administrative expense.

All related party transactions were in the normal course of business and have been measured at the exchange amount.

9. COMMITMENTS

The Company has an obligation under various German operating leases which requires the following minimum annual payments during the respective fiscal years:

2010	226
2011	317
2012	295
2013	293
2014	147

10. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Credit risk

The Company is exposed to credit risk through: the possibility that certain customers may default on their financial obligations; concentration of transactions with the same party; or concentration of financial obligations which have similar economic characteristics which can be similarly affected by changes in economic conditions.

Customers are granted unsecured credit subject to credit approval prior to acceptance of a purchase order. Credit terms vary from cash on delivery to 90 days depending on the credit risk of each customer as assessed by management. Each customer has a credit limit established by management and once the customer reaches the credit limit, shipments are halted until payments are made. The Company can request collateral such as a guarantee or letter of credit, before acceptance of a purchase order. In addition, certain European customers' accounts are insured through Export Development Canada. Management believes its concentration of credit risk with respect to accounts receivable is limited due to the credit quality of its customers.

At March 31, 2010, the Company's cash and restricted cash is on deposit with a Canadian chartered bank and two German financial institutions. Accounts receivable normally include bus manufacturers and Original Equipment Manufacturers ("OEMs"). At March 31, 2010, the Company has receivables outstanding from three customers (December 31, 2009 – three) each greater than 10% of the Company's outstanding receivable balance.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

*(tabular amounts in thousands of Canadian dollars, except share capital amounts)
(unaudited)*

(a) Credit risk (continued)

The carrying value of the accounts receivable approximates their fair value due to the relatively short periods to maturity of these instruments. The maximum exposure to credit risk for cash, restricted cash and accounts receivable is represented by the carrying amounts on the balance sheet. There are no material financial assets that the Company considers past due.

The Company assesses on a quarterly basis whether there has been any impairment of financial assets. As at March 31, 2010, management determined there was no impairment of any of the financial assets.

(b) Market risk

Interest rate risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk on floating interest rate bank debt due to fluctuations in market interest rates.

As at March 31, 2010, the Company has a \$2.75 million line of credit with a major Canadian chartered bank. Amounts drawn on the operating bank line are payable on demand and bear interest at the bank prime rate plus 2.0% per annum. The Company has drawn \$1.3 million on this credit facility as of March 31, 2010 (December 31, 2009 - \$245 thousand). The credit agreement requires the Company to be below a specified tangible net worth ratio, and above a specified working capital ratio and maintain shareholders' equity above \$22.0 million (see note 5). The Company is in compliance with all financial covenants at March 31, 2010.

The Company has a \$4.8 million mortgage of its Calgary production facility with the Business Development Bank of Canada. The mortgage has a term of 15 years and bears interest at the bank prime rate plus 2.0% per annum. Repayment of principal began in September 2009 and an option to extend repayment of principal for an additional six months is available.

The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

A 0.25% change in the interest rate would have impacted the net loss of the Company during the period ended March 31, 2010 by approximately \$3 thousand (2009 - \$3 thousand) before tax effect. A sensitivity of 0.25% was selected, as this is considered reasonable given the current lending rates available.

Foreign currency risk

The Company is exposed to foreign currency risk arising from operations and sales outside of Canada. A significant portion of the Company's revenues and expenses are denominated in United States ("US") dollars and EUROS. The Company's cash flow from sales will therefore be impacted by fluctuations in foreign exchange rates.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of Canadian dollars, except share capital amounts)
(unaudited)

Foreign currency risk (continued)

The Company does not use foreign exchange rate hedges or fixed foreign exchange contracts to manage the Company's exposure to foreign exchange rate fluctuations.

A \$0.05 increase or decrease in the Canadian / EURO exchange rate would have impacted the net loss of the Company for the three month period ended March 31, 2010 by \$117 thousand before tax effect. A sensitivity of five percent was selected, as this is considered reasonable given the current level of the Canadian to EURO exchange rate and market expectations for future movements.

A \$0.05 increase or decrease in the Canadian / US exchange rate would have impacted the net loss of the Company for the three month period ended March 31, 2010 by \$23 thousand before tax effect. A sensitivity of five percent was selected, as this is considered reasonable given the current level of the Canadian to US dollar exchange rate and market expectations for future movements.

(c) Liquidity risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth;
or
- The Company may be unable to settle or recover a financial asset at all.

The Company's meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and analyzing its investing and financing requirements. Operating cash requirements can fluctuate due to amounts projected to complete its existing capital expenditure program and adjustments to input variables. These input variables include but are not limited to: available bank lines, order backlog from existing customers, ability of the Company to develop new customers, raw material pricing, competitors entering the market. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing.

As described in note 5, the Company has a short-term operating bank line in place to meet short-term fluctuations in cash requirements.

The following table provides Dynetek's mortgage and capital lease obligations, including interest, at March 31, 2010 for each of the next five years and thereafter.

(thousands of Canadian dollars)

	Total	2010 ⁽¹⁾	2011	2012	2013	2014	Thereafter
Capital lease obligation	409	103	137	115	54	–	–
Mortgage obligation	6,281	400	521	507	493	479	3,881
Total contractual obligations	6,690	503	658	622	547	479	3,881

⁽¹⁾ Remaining nine months of 2010.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of Canadian dollars, except share capital amounts)

(unaudited)

(d) Fair values of financial instruments

The Company's financial instruments are classified as cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank indebtedness, capital lease and long-term debt. The carrying value and fair value of these financial instruments at March 31, 2010 is disclosed below by financial instrument category:

Financial Instrument	Carrying Value	Fair Value
Assets held for Trading		
Cash and restricted cash	673	673
Loans and Receivables		
Accounts receivables	4,757	4,757
Other Liabilities		
Accounts payable and accrued liabilities	3,410	3,410
Bank indebtedness	343	343
Loans ⁽¹⁾	2,014	1,961
Mortgage	4,805	4,805
Capital lease ⁽²⁾	367	386

(1) The fair values of the loans are measured using the Company's risk-free cost of borrowing at March 31, 2010, which was 0.74% per annum.

(2) The fair value of the capital lease is measured using the Company's cost of borrowing for equipment at March 31, 2010, which was Euribor plus 3% per annum.

CICA Handbook Section 3862 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2010.

(thousands of Canadian dollars)	Level 1	Level 2	Level 3	Total
Held for trading:				
Cash and restricted cash	673	-	-	673

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard its accumulated capital in order to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders.

The capital structure of the Company consists of equity, long-term debt and capital lease less cash and is summarized in the table below:

	March 31 2010	December 31 2009
Shareholders' equity	24,321	25,704
Long-term debt and capital lease, including current portion	7,186	7,332
Cash	(265)	(1,040)
Total Capital	31,242	31,996

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share or debt issuances or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements other than financial covenant ratios in the operating line of credit agreement which requires the Company to meet three financial covenants (see note 5). The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

12. SEGMENTED INFORMATION

The Company currently operates in one operating segment, which involves the manufacture and sale of lightweight fuel storage systems. The majority of the Company's operations and assets relating to commercial production were located in Canada at March 31, 2010. Revenues attributed to foreign countries are based on the location of the customer.

	Three months ended March 31	
	2010	2009
Cylinder and system sales		
North America	511	847
European Union ⁽¹⁾	3,348	4,753
Other	90	196
	3,949	5,796

⁽¹⁾ 2010 revenue includes two customers who comprises 10% or more (2009- two customers) of revenue from the European Union.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following sets out management's discussion and analysis of the financial position of Dynetek Industries Ltd. ("Dynetek" or "the Company") as at March 31, 2010 and December 31, 2009 and results of operations for the three months ended March 31, 2010 and 2009 and is based on information available as at May 6, 2010. The interim management's discussion and analysis ("MD&A") updates Dynetek's 2009 annual MD&A, to which readers are referred. No update is provided where an item is not material or where there has been no material change from the discussion in Dynetek's annual MD&A.

Non-GAAP Financial Measures

Dynetek reports its financial results in accordance with generally accepted accounting principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures, such as EBITDA, working capital and non-cash working capital. Dynetek defines EBITDA as earnings before interest, taxes, stock based compensation, foreign exchange gain or loss, depreciation, and amortization. Dynetek defines non-cash working capital as current assets less cash, restricted cash and current liabilities and working capital as current assets less current liabilities. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so that they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP financial measure. A reconciliation of non-GAAP financial measures from the Consolidated Balance Sheets and Consolidated Statements of Net Loss, Comprehensive Loss and Deficit is provided in the section Reconciliation of non-GAAP Financial Measures.

Forward Looking Statements

In addition to historical information, this management's discussion and analysis contains forward-looking statements and should be read in conjunction with the financial statements and related notes for the year ended December 31, 2009. Forward-looking statements are based upon current assumptions, expectations and estimates that involve a number of risks and uncertainties and actual results could differ materially from those discussed in the forward-looking statements. Readers are encouraged to review the section in the annual Management's Discussion and Analysis titled 'Principal Risks and Uncertainties' for a discussion of factors that could affect Dynetek's future operations and financial results. Forward-looking statements are based upon management's assumptions, expectations and estimates at the time the statements are made. Dynetek does not update forward-looking statements should circumstances or management's assumptions, expectations or estimates change, except where required by securities laws.

Financial Highlights

(tabular amounts in thousands of Canadian dollars, except share capital and per share data)

(unaudited)	Three months ended March 31	
	2010	2009
Revenue		
Cylinder and system sales	3,949	5,796
Research and development income	380	1,057
Investment and other income	1	3
Total Revenue	4,330	6,856
Net loss	(1,419)	(909)
Net loss per common share (basic and fully diluted)	(0.07)	(0.04)
EBITDA ¹	(442)	1
Cash flow deficiency from operations	(688)	(2,821)
Capital and intangible expenditures	254	218
Cash	265	728
Non-cash working capital ¹	11,826	13,972
Working capital ¹	12,499	15,108
Total assets	35,766	42,478
Long-term debt	6,348	6,948
<u>Weighted average number of common shares outstanding</u>	20,956,500	20,936,500

⁽¹⁾ EBITDA, non-cash working capital and working capital are non-GAAP financial measures that are defined and discussed in the Non-GAAP Financial Measures section of the Management's Discussion and Analysis.

Cylinder and system sales for the three months ended March 31, 2010 were \$3.9 million, a decrease of 32% from \$5.8 million for the same period of 2009. The majority of the decrease was the result of a combination of sales orders anticipated in Q1 now deferred to the remaining quarters of 2010 and the appreciation of the Canadian dollar against the US dollar and Euro. The Canadian dollar appreciated 16.4% against the US dollar and 11.2% against the Euro comparing Q1 2010 foreign exchange rates to Q1 2009.

For the second quarter of 2010, Dynetek's North American and European operations have greater levels of confirmed sales orders than same period 2009, which should result in significantly higher sales during the second quarter compared to the first quarter of 2010. We currently anticipate unit sales for the first six months of 2010 to be comparable to that of the first six months of 2009.

Research and development income for the three months ended March 31, 2010 was \$0.4 million, a decrease of 64%, from \$1.1 million for the same period in 2009. The 2010 first quarter decrease in research and development income from Q1 2009 was related to completion of the Magna Steyr contract by December 31, 2009.

Dynetek has secured new hydrogen projects for 2010 currently anticipated to be in excess of 2009 volumes with major deliverables coming in Q3 and Q4 of 2010.

Cost of goods sold was \$3.5 million for the three months ended March 31, 2010 compared to \$5.5 million for the same period in 2009. The decrease in cost of goods sold for the first quarter of 2010 is reflective of the decrease in first quarter revenues. Corresponding contribution margins for the three months ended March 31, 2010 were \$0.9 million, or 20% of sales compared to \$1.3 million or 19% of sales for the same period of 2009. Contribution margin as a percentage of revenue remained consistent, despite the decrease in 2010 first quarter revenue, due to cost saving strategies implemented over the last 18 months.

General and administrative expense was \$1.0 million for the three months ended March 31, 2010, which is comparable to the same period of 2009. General and administration expense as a percentage of revenue for the three months ended March 31, 2010 was 23% compared to 13% for the same period of 2009. The decrease in sales for the three months ended March 31, 2010 resulted in the increase of general and administration expense as a percentage of revenue.

Marketing expense was \$0.3 million for the three months ended March 31, 2010, a decrease of \$0.1 million compared to the same period of 2009. The decrease was the result of the Company participating in fewer trade shows and lower amounts of commissions paid in the first quarter of 2010 due to lower revenue. Marketing expense increased to 7% of revenue for the three months ended March 31, 2010 compared to 6% for the same period of 2009 as a result of lower sales in the first quarter of 2010.

Interest expense was \$0.1 million for the three months ended March 31, 2010, which is comparable to the same period of 2009. Interest expense is realized from the Company's floating interest rate debt, its mortgage and operating line of credit, and from its capital lease obligation which has a fixed interest rate.

Depreciation expense was \$0.3 million for the three months ended March 31, 2010, which is comparable to the same period of 2009.

Amortization expense was \$0.3 million for the three months ended March 31, 2010, which was comparable to the same period of 2009.

Foreign exchange loss for three months ended March 31, 2010 was a loss of \$0.3 million compared to a loss of \$0.2 million in the same period of 2009. Dynetek's North American operation invoices the majority of its revenue in US dollars and the European operation invoices in Euros. The Company reports its results in Canadian dollars but the revenues are generated primarily in US dollars and Euros. The foreign exchange loss in the first three months of 2010 was due to the weakening of the US dollar and Euro against the Canadian dollar resulting in a negative impact on the foreign denominated accounts receivable and cash when translating into Canadian dollars for financial reporting purposes and the settlement of accounts receivable transactions during the period. At March 31, 2010 the exchange rates for 1 Euro was \$1.37 Canadian and for 1 US dollar was \$1.02, compared to exchange rates at December 31, 2009 of 1 Euro worth \$1.50 Canadian and 1 US dollar worth \$1.05 Canadian.

Stock based compensation for three months ended March 31, 2010 was \$36 thousand compared to \$25 thousand in the same period of 2009. The Company issued 775,000 stock options during the first quarter of 2010 compared to nil for the first quarter of 2009.

Net Loss for the three months ended March 31, 2010 was (\$1.4) million or (\$0.07) per common share compared to net loss of (\$0.9) million or (\$0.04) per common share for the comparable period of 2009. The increase in net loss for the three months ended March 31, 2010 is substantially the result of decreased sales in North American and Europe and a larger foreign exchange loss compared to the first quarter of 2009.

Summary of Quarterly Results

The following table shows selected unaudited financial information for the past eight quarters ending March 31, 2010. The information has been obtained from our quarterly unaudited financial statements, which have been prepared in accordance with Canadian GAAP and, in the opinion of management, have been prepared using accounting policies consistent with the Company's audited financial statements as at December 31, 2009 and include all adjustments necessary for the fair presentation of the results of the interim periods. We expect our operating results to vary significantly from quarter to quarter and they should not be relied upon to predict future information.

(thousands of Canadian dollars except per share data)	June 30 2008	Sept 30 2008	Dec. 31 2008	Mar. 31 2009	June 30 2009	Sept 30 2009	Dec 31 2009	Mar 31 2010
(unaudited)								
Revenues								
Cylinder and system sales	3,517	5,484	6,771	5,796	8,284	7,469	5,178	3,949
Research & development income	1,443	1,399	1,277	1,057	896	884	627	380
Investment & other income	55	122	69	3	3	1	61	1
	5,015	7,005	8,117	6,856	9,183	8,354	5,866	4,330
Operating expenses								
Cost of goods sold	4,559	5,128	6,537	5,542	7,358	6,707	5,404	3,477
Marketing plus general and administration	1,251	1,221	1,295	1,313	1,418	1,348	1,042	1,295
	5,810	6,349	7,832	6,855	8,776	8,055	6,446	4,772
EBITDA ¹	(795)	656	285	1	407	299	(580)	(442)
Interest	108	106	113	69	74	94	98	74
Taxes	-	-	-	-	-	-	-	-
Stock based compensation	21	21	26	25	25	27	26	36
Foreign exchange loss (gain)	(93)	(64)	(263)	228	(62)	(143)	199	314
Depreciation & amortization	649	629	775	588	584	595	823	553
Loss on equipment disposal	-	-	-	-	-	-	299	-
	685	692	651	910	621	573	1,445	977
Net loss	(1,480)	(36)	(366)	(909)	(214)	(274)	(2,025)	(1,419)
Net loss per share								
Basic and fully diluted	(0.07)	(0.00)	(0.02)	(0.04)	(0.01)	(0.02)	(0.09)	(0.07)

¹EBITDA is defined in the Reconciliation of non-GAAP Financial Measures section of the Management's Discussion and Analysis.

Intangible Assets and Deferred Costs - Expenditures

(thousands of Canadian dollars - unaudited)

	Three months ended March 31	
	2010	2009
Patents	-	2
Certification costs	68	158
Deferred Costs	25	2
	93	162

Intangible asset expenditures for the three months ended March 31, 2010 were \$0.1 million compared to \$0.2 million for the same period of 2009. The additions for the first quarter of 2010 and 2009 were due to costs related to obtaining new product certifications in North America and Asia.

Capital Expenditures

(thousands of Canadian dollars - unaudited)

	Three months ended March 31	
	2010	2009
Manufacturing equipment	75	51
Office furniture and other equipment	7	5
Computer hardware and software	13	-
Manufacturing equipment under construction	66	-
	161	56

Capital expenditures for the three months ended March 31, 2010 were \$161 thousand compared to \$56 thousand for the first quarter of 2009. The additions for the first quarter of 2010 and 2009 were primarily due to upgrades to manufacturing equipment.

Financial Resources and Liquidity

The Company's principle source of liquidity is cash generated from operations. The Company's principal liquidity requirements relate to the working capital required to maintain our production, sales and research and development projects. The Company's actual funding requirements and financing alternatives could vary depending on a number of factors, including CNG system sales on a global basis, the progress of research and development projects, the Company's ability to improve controllable costs and the development of additional relationships with strategic partners.

As at March 31, 2010 Dynetek had cash of \$0.3 million, compared to \$1.0 million at December 31, 2009. Dynetek had a cash flow deficiency from operations of (\$0.7) million for the period ended March 31, 2010 compared to a cash flow deficiency of (\$2.8) million for the three months ended March 31, 2009. The majority of the first quarter cash flow deficiency in 2010 and 2009 was the result of increased levels of inventory as the Company realized greater sales during the second quarter of 2009 and forecasts the same to occur for the second quarter of 2010.

The Company has a \$2.75 million line of credit with a Canadian major chartered bank and the ability to fund liquidity requirements through its line of credit facility. At March 31, 2010, \$1.3 million was drawn down on this credit facility compared to \$245 thousand at December 31, 2009. The Company was in compliance with all financial covenants under the credit agreement at March 31, 2010.

Actively managing working capital is key to ensuring cash is available to support funding of the Company's ongoing operations. The following table provides additional information on its working capital balances at March 31, 2010 as compared to December 31, 2009.

(thousands of Canadian dollars)	March 31, 2010	December 31, 2009	Change in working capital
Cash and restricted cash	673	1,448	(775)
Accounts receivable	4,757	5,628	(871)
Inventory	11,826	10,393	1,433
Prepaid expenses and other	340	442	(102)
Bank indebtedness	(343)	-	(343)
Accounts payable and accrued liabilities	(3,410)	(2,915)	(495)
Deferred revenue	(506)	(429)	(77)
Current portion of long-term debt and capital lease	(838)	(841)	3
	12,499	13,726	(1,227)

At March 31, 2010 accounts receivable were \$4.7 million representing a decrease of \$0.9 million when compared to December 31, 2009. This decrease is representative of the decrease in cylinder and system sales and research and development sales in the first quarter of March 2010 compared to the fourth quarter of 2009.

The Company's investment in inventory increased by \$1.4 million, to \$11.8 million at March 31, 2010 from \$10.4 million at December 31, 2009. The increase was the result of the European operations increasing inventory levels to fulfill more deliveries in the second quarter. The following table summarizes the inventory balance at March 31, 2010 compared to December 31, 2009.

(thousands of Canadian dollars)	March 31 2010	December 31 2009	Change
Raw materials	2,767	2,126	641
Work-in-progress	4,558	4,815	(257)
Finished goods	4,501	3,452	1,049
	11,826	10,393	1,433

Finished goods, substantially represented by confirmed orders to be delivered, increased by \$1.0 million to \$4.5 million. The European operations will have increased customer orders for the second quarter of 2010 and require higher levels of finished goods to fulfill the second quarter orders. Raw materials increased by \$0.6 million to \$2.8 million as a result of increases of carbon fibre and aluminum pipe being held for production. Work-in-progress inventory slightly decreased to \$4.6 million from \$4.8 million at December 31, 2009 as more production jobs were completed and converted to finished goods at March 31, 2010.

Accounts payable at March 31, 2010 were \$3.4 million, compared to \$2.9 million as at December 31, 2009. This increase is representative of the increase in materials required to produce additional inventory in the first quarter of 2010.

The current portion of long-term debt relates to repayable research and development funding supplied by Natural Resources Canada ("NRCan"), a \$4.8 million mortgage with the Business Development Bank of Canada ("BDC") and a capital lease obligation.

The agreements with NRCan allow Dynetek to retain the intellectual property and to receive long-term funding. The debt is interest free and repayable only in the form of royalties based on specific related commercial product sales. The Company has estimated \$0.4 million to be repaid in 2010. During the first quarter of 2010, the Company did not receive funding from NRCan in the form of long-term debt.

Principal repayments for the BDC mortgage began in September 2009. Under certain conditions, the Company can elect to defer repayment of mortgage principal for up to six months.

Dynetek continues to build on the strong strategic alliances with several major OEMs whereby confidential joint funding has been obtained to develop complete hydrogen fuel storage systems. Other research programs with strategic partners, such as government bodies, who provide financial and technical support, are also in place to explore other storage applications in the energy marketplace.

Transactions with Related Parties

There were two transactions with related parties and each related party transaction was completed in the normal course of business.

For the three months ended March 31, 2010, the Company purchased under normal terms and conditions \$0.4 million (2009 - \$2.4 million) of material used in the production of lightweight fuel storage systems from Mitsubishi Rayon Corporation, a shareholder of the Company.

For the second related party transaction, the Company continued with its agreement with the chairman of the board. Under the agreement, the Company received financial consulting and strategic planning services. The agreement for the services was effective from August 2009 through January 2010. The Company paid \$29 thousand to a company controlled by the chairman during the first quarter of 2010.

Outstanding Share Data

Issued and outstanding:

	Number of Shares	Dollar Amount ('000)
Balance at December 31, 2009 and March 31, 2010	20,956,500	\$ 52,422
	March 31 2010	December 31 2009
Securities convertible into common shares:		
Stock options	1,939,500	1,214,500
Warrants	581,730	680,112

As at May 6, 2010, common shares outstanding were 20,956,500, options outstanding were 1,938,000 and warrants outstanding were 581,730.

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, the Company will begin reporting under IFRS. The Company has developed an IFRS conversion plan, which includes initial assessment, detailed assessment and implementation phases and is progressing with its changeover plan to complete its transition to IFRS.

The IFRS changeover plan also includes obtaining skilled personnel, providing education and training, analyzing the impact on Dynetek of key differences between GAAP and IFRS, and developing and executing a phased approach to conversion and implementation. The Company has engaged an external advisor to assist with the IFRS conversion process.

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The initial assessment phase began in 2009 and focused on establishing resources, training initiatives, an assessment of the information technology systems and a preliminary assessment of the significant differences between Canadian GAAP and IFRS. With the Company having only two locations of operations, more emphasis has been allocated towards identifying differences between Canadian GAAP and IFRS. A detailed examination of the various financial statement line items is ongoing and identified differences will be assessed for impact on the Company.

Dynetek has determined that the most significant impact of IFRS conversion is to property, plant and equipment (capital assets). Under Canadian GAAP, items of property, plant and equipment are depreciated on a rational basis over their estimated service lives. Under IFRS, significant components of the same items of property, plant and equipment will be separately identified and depreciated over their respective estimated service life.

Several of the IFRS standards that could be applicable to the Company are in the process of being amended by the International Accounting Standards Board. Amendments to existing standards are expected to continue until the effective date of January 1, 2011. At this time, the impact on the Company's financial position and results of operations is not reasonably determinable nor can be estimated for any of the IFRS conversion impacts identified. By the second quarter of 2010, the Company expects to complete its risk assessment of key processes that will be impacted by IFRS. During the last half of 2010, the Company expects to be able to run parallel both Canadian GAAP and IFRS trial balances and develop required IFRS financial statement disclosures.

Internal Control Over Financial Reporting ("ICFR")

The Management of the Company, including the Certifying Officers have evaluated whether there were any changes in the Company's internal control over financial reporting during the interim period ended March 31, 2010. No material changes in the Company's internal controls and procedures have occurred during the Company's most recent interim period, which have materially affected, or are reasonably likely to materially affect, the Company's IFCR.

As reported in the Company's 2009 annual MD&A, the Company concluded that, similar to other small companies, certain inherent weaknesses in the Company's ICFR exist due to its small size and its inability to segregate incompatible functions. The risk associated with these weaknesses is associated with the Company's ability to safeguard assets.

These weaknesses in ICFR result in a more than remote likelihood that a material misstatement would not be prevented or detected on a timely basis. The existence of these weaknesses is being compensated for by Senior Management review and involvement to mitigate the risk of material misstatement. However, these mitigating procedures are not considered sufficient to reduce the likelihood that a material misstatement would not be prevented or detected. The Company currently has no plans to fully remediate these weaknesses, as Management believes that it is not currently economically feasible to achieve complete segregation of incompatible duties. As the Company grows, there would be plans to expand the number of individuals to segregate incompatible functions. It should be noted that a control system, no matter how well conceived or operated can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met.

Outlook

Dynetek remains committed to its strategy of maximizing CNG sales in the near term while maintaining a focus on the long-term hydrogen market through research and development activities with the global OEMs.

Current projects underway within the research and development group are expected to result in 2010 research and development revenue exceeding 2009 research and development revenue and are evidence of the commitment on behalf of the OEMs to continue to pursue hydrogen strategies and to continue to see Dynetek as the supplier of choice.

The Asia-Pacific market represents significant opportunities for revenue growth with demand for CNG cylinders in Asia-Pacific expected to increase materially over the next 5 years. The International Gas Union estimates that by 2015, there will

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be an additional 7.9 million natural gas vehicle equivalents in Asia-Pacific compared to only 0.8 million additional in Europe and 0.2 million additional in North America.¹

Recent regulatory approvals in certain Asia-Pacific countries are the first steps in pursuing joint ventures to maximize Dynetek's penetration of these significant markets.

In addition to Dynetek's geographic expansion, we continue to focus on developing additional applications for our cylinders including bulk hauling and stationary storage.

Reconciliation of non-GAAP Financial Measures

EBITDA

GAAP Measures from Consolidated Statements of Net Loss, Comprehensive Loss and Deficit	Three months ended March 31	
(thousands of Canadian dollars – unaudited)	2010	2009
Net loss and Comprehensive Loss	(1,419)	(909)
Provision for income taxes	-	-
Stock based compensation	36	25
Net foreign exchange loss	314	228
Depreciation and Amortization	553	588
Interest	74	69
Non-GAAP measure - EBITDA	(442)	1

Working Capital and Non-Cash Working Capital

GAAP Measures from Consolidated Balance Sheets	March 31, 2010	March 31, 2009
(thousands of Canadian dollars – unaudited)		
Accounts receivable	4,757	6,288
Inventory	11,826	14,719
Prepaid expenses and other	340	360
Bank indebtedness	(343)	-
Accounts payable and accrued liabilities	(3,410)	(6,207)
Deferred revenue	(506)	(548)
Current portion of long-term debt and capital lease	(838)	(640)
Non-GAAP measure – Non-Cash Working Capital	11,826	13,972
Add: Cash and Restricted cash	673	1,136
Non-GAAP measure - Working Capital	12,499	15,108

Management believes that presentation of these non-GAAP financial measures provides useful information to investors and shareholders.

Additional information relating to Dynetek

Additional information concerning Dynetek, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com under Dynetek Industries Ltd. and the Company's website www.dynetek.com.

¹ International Gas Union, "Report on Study Group 5.3 – Natural Gas Vehicles", IGU World Gas Conference October 2009

